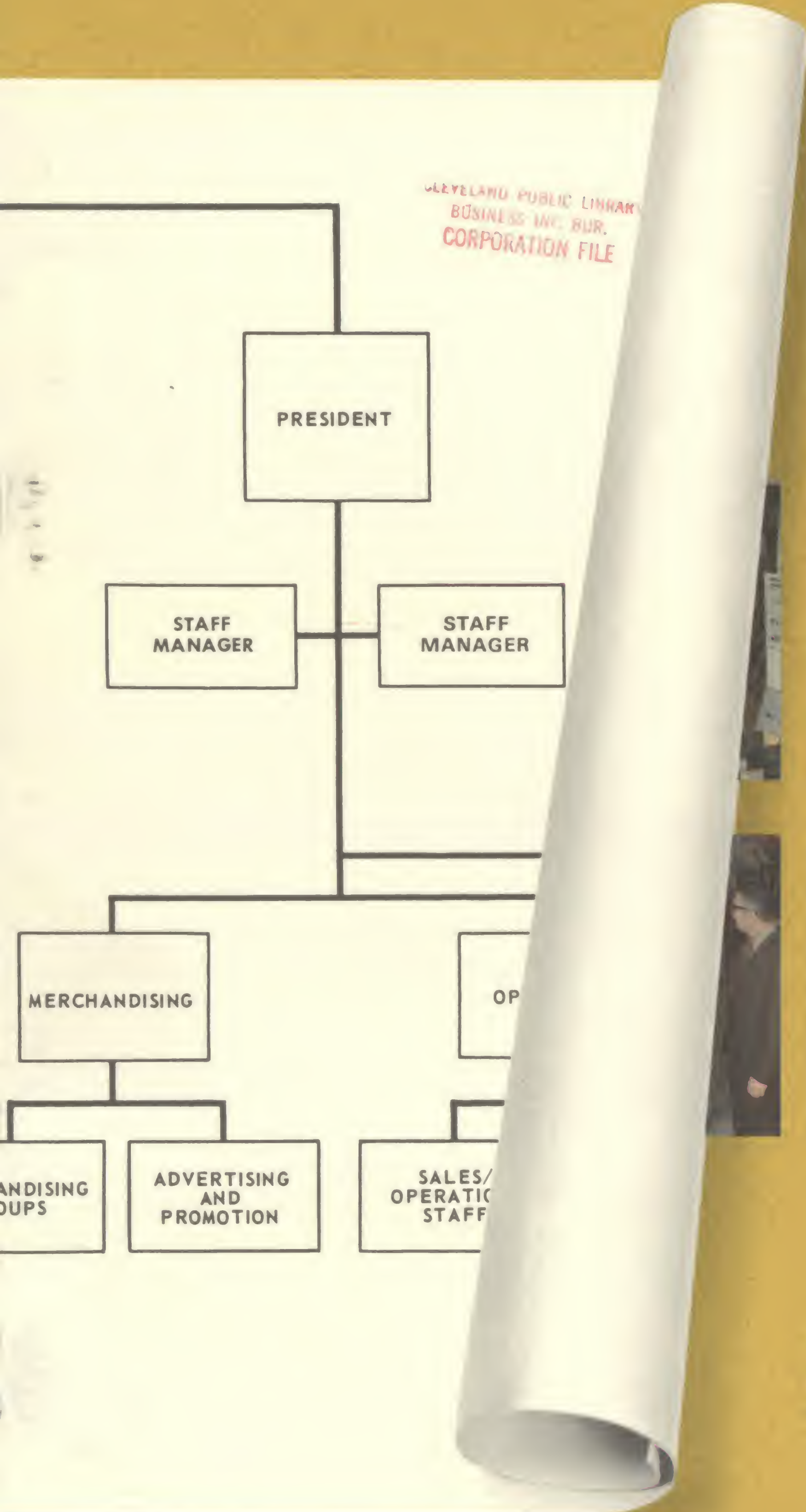


ZAYRE

ANNUAL REPORT 1969

Cover

The cover is representative of the organizational structure, as well as the network of specialists and management personnel whose expertise and leadership ensure that Zayre will continue to be a pace-setter in the retail industry.

Contents

ZAYRE

Financial Highlights

	1969	1968
Net Sales	$599,869,000	$490,691,000
Income before Federal Income Taxes	16,452,000	18,338,000
Net Income after Federal Income Taxes	8,652,000	9,538,000
Working Capital	80,350,000	52,459,000
Shareholders' Equity	65,516,000	56,328,000
Net Income per Common Share:		
Primary	$1.85	$2.10
Fully Diluted	$1.78	$1.99

MORRIS FELDBERG

1892 – 1969

The entire Zayre family suffered a great loss with the passing of Morris Feldberg, co-founder and Chairman of the Board of Zayre.

"Mr. Morris", as he was known to all who worked with him, passed away in his 77th year on September 17, 1969. His career stands as a testimonial of what Zayre represents to its employees as well as to the people it serves.

Although "Mr. Morris" was active over most of his career in the merchandising areas, the scope of his contributions can best be measured by those that are intangible. When those who worked with him are asked about "Mr. Morris", they immediately reply that he shall always be remembered for his warmth, humility, and above all his real interest in people.

His major concern was the welfare and progress of people, and many Zayre employees owe what they are today to his encouragement and interest.

Morris Feldberg had been prominent in the retail field for more than fifty years. With his brother, Max Feldberg, he founded New England Trading Company in 1919. From that hosiery jobbing firm soon came a chain of women's specialty stores — Bell Shops and Nugents. Out of that base, Zayre Corp. emerged in 1956.

It is with great humility that this report is dedicated to his memory.

To Our Shareholders:

1969 capped a decade of truly remarkable growth for Zayre Corp. Total volume for the year reached $599,869,000, an increase of $109,178,000, or 22% over the prior year. However, the very real achievements of the year were clouded by disappointing earnings — the first decline in net income since Zayre began in 1956.

The year produced earnings gains during the first three quarters. Then the restrictive effects of "tight money" and the Administration's anti-inflation program adversely affected retail sales during the all-important fourth quarter, which usually accounts for about half of the annual income. This sales slowdown magnified the impact of markdowns associated with the usual year-end inventory clearances and January and February sales promotions. Inventory shrinkage increased sharply and resulted in a charge to fourth quarter earnings which was much higher than the amount which could be anticipated from past experience.

Primarily as a consequence of these matters, net income for 1969 declined to $8,652,000, equal to $1.85 per share, compared with $9,538,000, or $2.10 per share last year. In view of the high objectives we set for ourselves, this result is clearly disappointing to management throughout the company, and vigorous action is being taken.

During the last two years, we have been developing much more vigorous promotional programs. The enlargement of our merchandising organization has allowed us to broaden the program, while the creation of the regional groups has assured improved execution in the field. This effort was largely responsible for the above-average sales gains achieved this year by our established units in the face of a difficult economic climate, and gives us confidence that we will be able to repeat this performance during 1970.

The three additional distribution centers placed in operation — Atlanta (September, 1969) and Chicago and Miami (February, 1970) — are designed to support the sales growth of the company. These new centers will enable our distribution organization to maintain a level of service consistent with the growth in number of stores. We continue to work towards a balanced distribution center network capable of supplying merchandise on a timely basis, while at the same time effecting freight economies.

We are pleased to note that 23 new Zayre stores (including one relocation) were opened during 1969. This is especially noteworthy in view of the difficult money-market conditions which prevailed throughout the year and which hampered the efforts of developers to start or complete real estate projects. We continue to have a very large number of new store

locations in various stages of negotiation and planning for opening over the two years ahead. However, delays in actual store starts incident to a continuation of "tight money" mean that no more than approximately 10 to 15 new stores will be fully completed during the current fiscal year.

Although the operation of self-service general merchandise stores continues to be our prime business, it is interesting to note that the company has now come to embrace a number of diversified retail operations, each of which has considerable future promise (see Report of Operations for additional details). These operations have their own managements, function independently, and are able to avail themselves of over-all corporate services, as required, including finance, data processing, real estate, systems and personnel.

Aware of our great opportunity for further profitable growth, as well as continuing "tight money" conditions, a decision was made to enlarge our capital base by selling \$20,000,000 of 5 ¾ % convertible subordinated debentures in December, 1969. This issue is convertible into common stock at \$40 per share and was listed for trading on the bond market of the New York Stock Exchange.

Most economic forecasts call for a sluggish first half, with growing consumer spending pacing renewed strong gains in the economy, beginning in the second half. Accordingly, we view the first half of the year with some caution, but anticipate much improved results in the important fall and Christmas seasons.

Our principal short-term objective is to improve operating performance or, put another way, to achieve, once again, above-average return on invested capital. Despite rising costs of doing business, our corporate budgets, keyed to an improved economic climate this fall, provide for higher profits for the full year 1970.

During the past ten years, Zayre grew from total sales of \$42,000,000 to \$600,000,000 — a huge accomplishment. Mass merchandising is still a young industry — and Zayre is a young company. The challenges still to be met, the opportunities that lie ahead, far exceed those of the past. In meeting these goals, the company looks forward to the continuing support of its employees, stockholders and suppliers.

Max Feldberg

MAX FELDBERG
Chairman

Stanley H. Feldberg

STANLEY H. FELDBERG
President

April 16, 1970

REPORT OF OPERATIONS

Financial Review

Zayre achieved a remarkably good sales performance during the fiscal year ended January 31, 1970. Total sales, excluding those of leased departments, rose 22% to a new high of $599,869,000. This represents an increase of $109,178,000, the largest such increase in the history of the company, and was achieved in the face of difficult over-all economic conditions. The very strong sales gains recorded by the established Zayre stores has been a source of real satisfaction to management.

Net income for the year was $8,652,000, equal to $1.85 per common share. This compares with net income of $9,538,000 or $2.10 per share in the prior year.

Over-all costs of operation increased due to the effect of inflation. In addition, we planned for greater operating costs in connection with the enlargement of our merchandising groups and the creation of the regional organization, as well as the establishment of the new distribution centers — all of which were designed to support the continuing growth of the company.

Despite these factors, income for the first three quarters was according to plan. However, during the all-important fourth quarter, the Administration's anti-inflation program reduced the rate of sales growth. This resulted in increased year-end markdowns to clear inventory, as well as larger promotional markdowns to support sales in January and February. In addition, inventory shrinkage increased sharply and resulted in a charge to fourth quarter earnings which was much higher than the amount which could be anticipated from past experience.

The latter two factors — markdowns and shrinkage — had a major impact on the profit for the year. Because the size of these factors was significantly larger than could be anticipated, the full impact of the increase in these items was charged to fourth quarter earnings. Comparative quarterly sales and earnings were:

1969

Quarter	*Sales*	*Earnings*	*Per Share*
First	$108,131,000	$ 962,000	$ .20
Second	146,147,000	1,990,000	.43
Third	150,523,000	2,543,000	.54
Fourth	195,068,000	3,157,000	.68
	$599,869,000	$8,652,000	$1.85

1968

Quarter	*Sales*	*Earnings*	*Per Share*
First	$ 92,705,000	$ 705,000	$ .13
Second	117,712,000	1,722,000	.37
Third	120,507,000	2,142,000	.47
Fourth	159,767,000	4,969,000	1.13
	$490,691,000	$9,538,000	$2.10

These results represent a return of 15% on average shareholders' equity. While this would be an acceptable return for many companies, it falls short of our objectives.

The seasonal financial requirements of a merchandising business are such that we maintain substantial lines of credit with a number of major commercial banks located throughout the areas we serve. We are especially pleased to report that during the year we developed a new banking relationship with a major New York City bank. As part of that program, we completed a $5,000,000 three-year term loan with that bank.

During December, 1969, the company sold $20,000,000 of 5 ¾ % 25-year convertible subordinated debentures to the public through an underwriting group headed by Lehman Brothers. These securities have been listed for trading on the bond market of the New York Stock Exchange. Proceeds of the issue have been added to working capital and will reduce our short-term borrowings during 1970. Our enlarged capital base will permit us to continue the rapid expansion of Zayre, as well as the related retail groups operated by us, and to develop selected real estate opportunities in support of our new store program.

Our financial planning is keyed to providing a more than adequate working capital base. Reflecting the aforementioned long-term financing, as well as this year's earnings, working capital increased by $27,891,000 to a total of $80,350,000.

CORPORATE PERSONNEL
Executives of the Corporate Personnel Department coordinate the staffing of the newly opened Atlanta facility with Distribution Division management. Recruiting, screening, security clearance, employee indoctrination, coupled with in-depth training of all personnel, produced a capable work force and effective Distribution Center operation.

We continued to expand the credit programs Zayre offers its customers. At fiscal year end, revolving credit programs were operative in 126 stores. As in the past, most receivables generated by this program are handled by an independent financing company and therefore do not require the use of our own working capital. In recognition of the continued growth of bank credit card plans, we are introducing their use in selected markets.

The Leasing Subsidiaries

1969 was an especially active year for the leasing subsidiaries. This reflects the greatly increased number of new stores opened, a larger program of store remodelings, and increased real estate activity, including the construction and financing of three new distribution centers.

Major Zayre Leasing Corporation financings concluded during the fiscal year included the following:

• Fixture financing for 23 new stores	$ 6,900,000
• Financings related to renovation and refixturing programs	$ 2,445,000
• Financings related to equipping new distribution centers in Atlanta and Miami	$ 1,050,000
Total	$10,395,000

Left
MANAGEMENT INFORMATION SYSTEMS
The latest computer technology and systems enable Zayre buyers to keep abreast of their ever-changing inventories. The General Manager of the newly established Shoe Division reviews computer reports with the Director of Management Information Systems and the Manager of Replenishment Systems.

Right
IMPORT DIVISION
"One world" concepts are a reality in today's retailing. This group is responsible for import purchasing. This involves supervision of complex shipping and transportation plans, international banking arrangements and customs matters as well as coordination with domestic buyers.

At the same time, $3,695,000 of Zayre Leasing debt was amortized through regular monthly payments. The fact that this program of long-term financing continues to function so well, even during a tight money period, reflects both the high regard which banks have for the company, as well as the sound manner in which it is conducted.

As previously noted, the company owns the new distribution centers which were constructed during 1969. A Zayre Realty subsidiary completed the permanent financing for these centers by placing an issue of $7,260,000 of 30-year notes with institutional investors.

In February, 1970, the company exercised its option to purchase the property occupied by Shoppers' City stores in Brooklyn Center and St. Paul, Minnesota. Plans are now being drawn to enlarge and modernize these buildings in order to maintain their competitive edge.

Joint ownership of real estate or its equivalent with various outside developers has continued to grow. Zayre has interests in 17 completed centers in which it is the principal tenant as well as six additional centers now in various stages of development.

It is apparent that conditions in the real estate field are changing rapidly. The present money-market is making it increasingly difficult for the inde-

pendent developer to function effectively. We feel that in order to insure a continuing supply of new stores the company will, over a period of time, be required to take a more direct and active interest in store construction, development and real estate financing.

Expansion

During 1969, we added 23 new Zayre stores (including one relocation) representing a total of 1,735,000 square feet of additional floor space. Thus at year end, 153 Zayre stores were in operation, occupying a gross area of approximately 11,590,000 square feet.

Seventeen of the 23 stores were added in markets where Zayre already had an established market position. This includes the addition of five units to the North Carolina market and four to the complex operated in Florida.

Two new units were opened in the St. Louis area, a major new market, with two or three more scheduled for 1970. We also opened initial units in the Western New York and Connecticut markets.

We are pleased that we met our stated new store objectives for 1969 with the opening of 23 units. We have a very large number of new store projects in various stages of planning or negotiation. Due primarily to the

continuing "tight money" situation, a limited number of stores — 10 to 15— will be completed for opening in 1970. With greater availability of funds, we should be able to open 20 to 25 new stores in 1971.

Diversification

With the growth of the company has come an increase in the number of opportunities for investment in other businesses. We have taken advantage of selected opportunities to broaden the operating base of the company. Our experienced organization has supplied financial, accounting, system, real estate and over-all direction to enable effective development of these investments.

Although its dominant business remains the Zayre stores, the company has, in fact, evolved into a diversified group of retail chains. Included in our operations are the following:

- Bell and Nugents Apparel Specialty Stores — In recent years this group of 48 stores has assumed new importance as it has developed an exciting format keyed to sportswear and designed to appeal to the younger generation.

- Beaconway Fabric Shops — This group operated seven stores at fiscal year end with plans to accelerate growth by opening eight to ten stores in

Left
REGIONAL ORGANIZATION
This group has profit center responsibility for the operation of groups of stores in specific geographic regions. They carry prime responsibility for spearheading improvement in sales performance and sharpening controls over expenses.

Right
FINANCIAL PLANNING
Financial planning and analysis, sales forecasting, capital budgeting and merchandise open-to-buy programs are all services provided for the various operating divisions of the company.

shopping centers during 1970. These stores are 3000 to 5000 square feet in size and sell a broad range of fabric and sewing needs.

• Spree! Leisure-time Stores — This is a new group organized in late 1969 to develop and operate a chain of toy and leisure-time stores. Plans for the 1970 opening of three to four prototype stores in the 20,000 to 30,000 square foot size range are now being completed.

• Housewares Departments — We presently operate 20 leased hardware and houseware departments in discount department stores operated by others. This group will continue its growth in relationship to the growth of its landlords.

• Real Estate Investment — Zayre owns a one-half interest in a real estate development company. Over a period of time this organization has constructed 17 strip centers in which Zayre is the principal tenant, and has six other strip centers in various stages of development.

• Discount Food Supermarkets — The company operates five discount food supermarkets as a part of the Shoppers' City group based in Minneapolis. This management has also assumed responsibility for the operation of three discount food markets in Zayre stores in Chicago.

MARKET DEVELOPMENT AND STORE PLANNING
Zayre executives travel the country to keep management up to date. Market Development aids in site selection by analyzing the growth of communities and the changes in market areas. Store Planning influences store layout and decor and thereby seeks to achieve improved store productivity.

• Gasoline Stations — Our experiment with the operation of Zayre gasoline stations has been very successful. These stations pump our own brand of gasoline — Zayre Regular and Zayre Premium. We now operate 37 stations and expect, during 1970, to open a number of additional units.

Other Developments

We opened three new distribution centers in Atlanta, Miami and Chicago as planned. We have therefore added over 670,000 square feet of the most up-to-date distribution center capacity to our network. This should have the effect of speeding up the flow of merchandise and enabling faster response to the specific needs of each area.

During the year, we experimented with the development of a private carrier operation to deliver freight from the Framingham, Mass. distribution center to New England stores. By year end, this operation was functioning successfully and had displaced common carrier service to most New England area stores.

Our new shoe division has been activated and has thus far performed according to plan. This group has already assumed the operation of 26 departments, and by the end of fiscal 1971 will be responsible for 60 departments doing an annualized volume of approximately $15,000,000. Its growth thereafter will progress rapidly over the next three years until it comes to operate all shoe departments in Zayre stores with a sales objective in excess of $50 million.

We have progressed rapidly, since our 1968 decision, in implementing the plan to create a series of eight regional offices to control the operations of the Zayre stores. By year end, seven regional offices had been created and staffed. These groups have brought incisive management back to store level, resulting in sharper control over expenses and better implementation of promotional plans.

Personnel

During 1969, the following promotions and elections to officerships were made by the Board of Directors:

George Mover, *Vice President — Regional Manager*

Arnold Suval, *Vice President — Merchandising*

O. C. Adams, *Assistant Vice President — Regional Manager*

Robert Alger, *Assistant Vice President — Regional Manager*

David Banker, *Assistant Vice President — Merchandising*

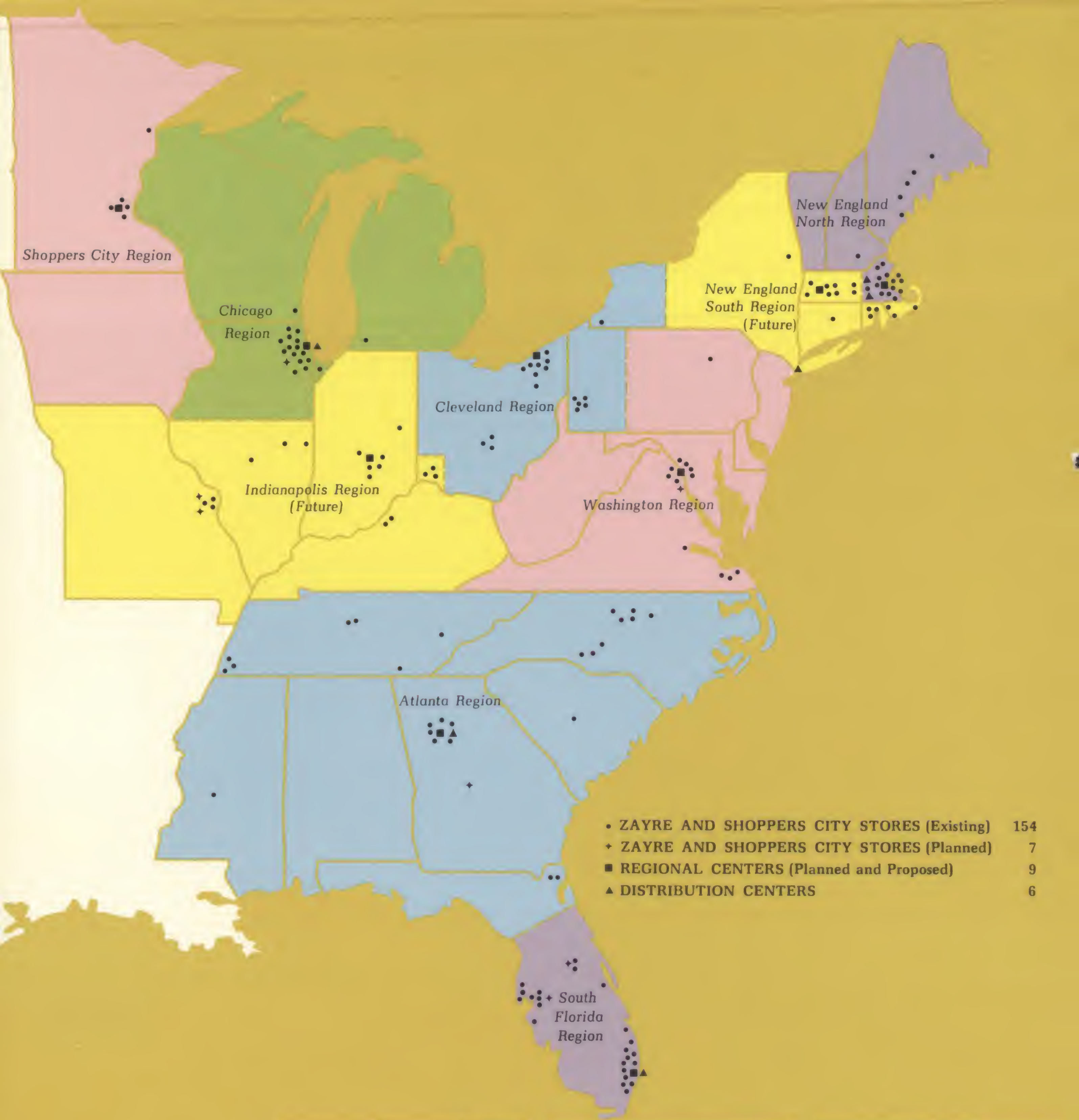
Robert Bozeman, *Assistant Vice President—Management Information Systems*

Irving Lief, *Assistant Vice President — Merchandising*

Robert Shedd, *Assistant Vice President — Finance*

Karem Skaff, *Assistant Vice President — Merchandising*

Early in 1970, George M. Paulson, Vice President — Merchandising, retired after 31 years of service with Zayre Corp. and its predecessor companies. As a senior officer of the company in the merchandising area over most of those years, Mr. Paulson made invaluable contributions to the growth of the company.



MAJOR MARKETING AREAS

BOSTON

CLEVELAND

CHICAGO

ZAYRE CORP. STORES (In operation at April 1, 1970)

• *Zayre and Shoppers City Stores (154)*

Connecticut. Southington.

Florida. Ft. Lauderdale (2), Jacksonville (2), Lakeland, Largo, Melbourne, Miami (8), Orlando (2), Pompano Beach, St. Petersburg (2), Sarasota, Tampa (3), West Palm Beach

Georgia. Atlanta (6)

Illinois. Champaign, Chicago (13), Danville, Joliet, Rock Island, Springfield

Indiana. Hammond, Indianapolis (5), Muncie

Kentucky. Louisville (2)

Maine. Augusta, Bangor, Lewiston, Portland, Presque Isle, Waterville

Maryland. Capitol Heights, New Carrollton, Silver Springs, Wheaton

Massachusetts. Attleboro, Boston (11), Fall River, Great Barrington, Hyannis, Lowell, Methuen, Natick, Pittsfield, Springfield (4), Worcester (2)

Michigan. Kalamazoo

Minnesota. Duluth, Minneapolis/St. Paul (4)

Mississippi. Jackson

Missouri. St. Louis (3)

New Hampshire. Manchester

New York. Glens Falls, Jamestown

North Carolina. Burlington, Charlotte (2), Greensboro (2), High Point, Kannapolis, Winston-Salem

Ohio. Akron, Cincinnati (3), Cleveland (7), Columbus (3)

Pennsylvania. Pittsburgh (5), Wilkes-Barre

Rhode Island. Providence (3)

South Carolina. Columbia

Tennessee. Chattanooga, Knoxville, Memphis (3), Nashville (2)

Virginia. Alexandria, Falls Church, Norfolk (2), Portsmouth, Richmond, Vienna

Wisconsin. Racine

Beaconway Fabric Stores (9)

Maine. Augusta, Lewiston, Portland

Massachusetts. Lawrence, West Peabody, Worcester

New Hampshire. Manchester, Nashua

Vermont. Barre

▲ *Distribution Centers (6)*

Florida. Miami

Georgia. Atlanta

Illinois. Chicago

Massachusetts. Framingham, Natick

New York. New York

★ *Zayre Store Openings Now Scheduled*

Florida. East Orlando, Tampa

Georgia. Macon

Illinois. Chicago

Missouri. St. Louis (2)

Virginia. Alexandria

Apparel Specialty Stores (48)

Connecticut. Manchester, Norwich, Thompsonville, Torrington, West Hartford

Maine. Augusta, Biddeford, Lewiston, Portland, Skowhegan

Massachusetts. Andover, Attleboro, Boston, Brockton, Chicopee, Dedham, Dorchester, Fall River, Framingham, Gloucester, Hadley, Lowell, Lynn, Malden, Pittsfield, Quincy, Springfield, Waltham, Westfield, Worcester

New Hampshire. Berlin, Concord, Keene, Manchester, Nashua (2), Rochester

New York. Auburn, Canandaigua, Glens Falls, Jamestown, Kingston, Niagara Falls, Olean, Poughkeepsie, Watertown

Vermont. Barre, Newport

ATLANTA

MIAMI

WASHINGTON

INDIANAPOLIS

Consolidated Balance Sheets

ASSETS	*January 31, 1970*	*January 25, 1969*
Current assets:		
Cash	$ 12,300,692	$ 9,044,367
Marketable securities, at cost approximating market	9,990,333	
Customer instalment receivables	1,901,709	2,891,081
Accounts receivable, trade and other	5,177,487	4,575,920
Amounts due from vendors	4,816,229	4,446,546
Merchandise inventories, at the lower of cost (retail method) or market	100,407,455	77,884,824
Due from leasing subsidiaries	2,575,906	1,320,732
Prepaid expenses	2,557,240	1,892,113
Total current assets	139,727,051	102,055,583
Equity in wholly-owned unconsolidated leasing subsidiaries (note A)	3,408,016	3,133,490
Equipment and leasehold costs and improvements, at cost	8,086,353	6,722,301
Less accumulated depreciation and amortization (note H)	3,105,231	2,671,700
	4,981,122	4,050,601
Note receivable from real estate development company	1,000,000	
Pre-opening expenses, at amortized cost	1,493,575	710,931
Deferred charges and other assets	1,848,795	1,019,724
	$152,458,559	$110,970,329

LIABILITIES		
Current liabilities:		
Current instalments of general corporate notes	$ 1,145,000	$ 1,220,000
Accounts payable	42,292,150	30,229,447
Sales taxes, payroll withholdings, and collections for leased departments	2,564,916	4,742,403
Accrued expenses	7,594,605	7,002,386
Federal income taxes	460,178	3,154,492
Total current liabilities	54,056,849	46,348,728
General corporate notes, exclusive of current instalments (note B)	12,617,492	8,012,492
Convertible subordinated debentures (note B)	20,000,000	
Deferred federal income taxes (note C)	268,000	281,000
Commitments (note D)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1, authorized 1,000,000 shares Series B cumulative convertible preferred stock, issued and outstanding 57,659 shares (note F)	57,659	57,659
Common stock, par value $1, authorized 11,000,000 shares, issued and outstanding 4,615,854 shares (notes A, B, F and G)	4,615,854	4,569,616
Additional paid-in capital	9,776,834	9,287,130
Retained earnings (notes B and F)	51,065,871	42,413,704
	65,516,218	56,328,109
	$152,458,559	$110,970,329

The accompanying notes are an integral part of the financial statements.

Zayre Corp. and All Subsidiaries

Consolidated Balance Sheets

	January 31, 1970	January 25, 1969
ASSETS		
Current assets:		
Cash	$ 13,926,692	$ 9,529,991
Marketable securities, at cost approximating market	12,145,423	2,588,988
Customer instalment receivables	1,901,709	2,891,081
Accounts receivable, trade and other	5,244,108	4,610,476
Amounts due from vendors	4,816,229	4,446,546
Merchandise inventories, at the lower of cost (retail method) or market	100,407,455	77,884,824
Prepaid expenses	2,557,240	1,892,113
Total current assets	140,998,856	103,844,019
Property, at cost:		
Land	4,745,969	4,289,754
Buildings	26,105,959	18,287,374
Leasehold costs and improvements	8,692,358	6,508,760
Furniture, fixtures and equipment	49,745,782	40,391,042
	89,290,068	69,476,930
Less accumulated depreciation and amortization (note H)	22,091,242	17,563,895
	67,198,826	51,913,035
Note receivable from real estate development company	1,000,000	
Pre-opening expenses, at amortized cost	1,493,575	710,931
Deferred charges and other assets	2,157,794	1,216,727
	$212,849,051	$157,684,712
LIABILITIES		
Current liabilities:		
Current instalments of long-term debt	$ 5,581,477	$ 5,099,154
Accounts payable	43,871,934	30,887,623
Sales taxes, payroll withholdings, and collections for leased departments	2,564,916	4,742,403
Accrued expenses	8,048,918	7,358,788
Federal income taxes	581,888	3,297,000
Total current liabilities	60,649,133	51,384,968
Long-term debt, exclusive of current instalments (note B):		
General corporate notes	12,617,492	8,012,492
Equipment promissory notes	27,024,892	21,122,368
Real estate mortgages	25,505,316	19,187,775
Convertible subordinated debentures	20,000,000	
Deferred federal income taxes (note C)	1,536,000	1,649,000
Commitments (note D)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1, authorized 1,000,000 shares Series B cumulative convertible preferred stock, issued and outstanding 57,659 shares (note F)	57,659	57,659
Common stock, par value $1, authorized 11,000,000 shares, issued and outstanding 4,615,854 shares (notes A, B, F and G)	4,615,854	4,569,616
Additional paid-in capital	9,776,834	9,287,130
Retained earnings (notes B and F)	51,065,871	42,413,704
	65,516,218	56,328,109
	$212,849,051	$157,684,712

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income and Retained Earnings

	Fiscal Year Ended January 31, 1970	Fiscal Year Ended January 25, 1969
Net sales, excluding sales of leased departments	$599,868,532	$490,690,810
Rentals from leased departments, net of estimated allocated store expenses	1,351,529	1,097,485
Other income	1,321,572	860,599
	602,541,633	492,648,894
Cost of sales, including buying and occupancy costs	475,334,783	385,480,110
Selling, general and administrative expenses	97,455,710	79,083,124
Depreciation and amortization (note H)	7,187,026	5,994,539
Interest expense	6,111,947	3,752,650
	586,089,466	474,310,423
Income before provision for federal income taxes	16,452,167	18,338,471
Provision for federal income taxes (note C)	7,800,000	8,800,000
Net income	8,652,167	9,538,471
Retained earnings at beginning of year	42,413,704	33,134,760
Dividends on Series A preferred stock		(259,527)
Retained earnings at end of year	$ 51,065,871	$ 42,413,704
Net income per common share (note I):		
Primary	$1.85	$2.10
Fully diluted	$1.78	$1.99

Consolidated Statements of Additional Paid-In Capital

	Fiscal Year Ended January 31, 1970	Fiscal Year Ended January 25, 1969
Balance at beginning of year	$ 9,287,130	$10,227,460
Excess over par value of shares of common stock issued upon:		
Exercise of stock options	442,144	352,405
Conversion of Series A preferred stock		177,638
Par value of common stock distributed in three-for-two split		(1,523,205)
Other	47,560	52,832
	$ 9,776,834	$ 9,287,130

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Funds

SOURCE	*Fiscal Year Ended January 31, 1970*	*Fiscal Year Ended January 25, 1969*
Net income	$ 8,652,167	$ 9,538,471
Charges to income not requiring current expenditures of funds:		
Depreciation and amortization	7,187,026	5,994,539
Deferred federal income taxes (excluding current portion)	(113,000)	(26,000)
Funds provided from operations	15,726,193	15,507,010
Long-term debt:		
Issuance of convertible subordinated debentures (net proceeds)	19,624,000	
Net increase in other long-term debt	16,825,065	7,363,549
Common stock issued upon exercise of options	488,382	370,455
Tax benefit arising from prior year's pooling of interests	324,525	345,420
	$52,988,165	$23,586,434
APPLICATION		
Land and buildings (net additions)	$ 8,274,800	$ 3,247,595
Fixtures, equipment and leasehold costs and improvements (net additions)	12,716,784	8,643,905
Note receivable from real estate development company	1,000,000	
Pre-opening costs	2,016,078	1,162,969
Deferred charges and other assets	1,036,617	295,352
Dividends on Series A preferred stock		259,527
Other	53,214	180,826
	25,097,493	13,790,174
Increase in working capital	27,890,672	9,796,260
	$52,988,165	$23,586,434

The accompanying notes are an integral part of the financial statements.

Auditors' Report

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and All Subsidiaries as of January 31, 1970, the related consolidated statements of income and retained earnings, additional paid-in capital, and funds for the fiscal year then ended, and the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries as of January 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements for the fiscal year ended January 25, 1969.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and All Subsidiaries and Zayre Corp. and Operating Subsidiaries at January 31, 1970 and January 25, 1969, and the results of operations and source and application of funds of Zayre Corp. and All Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
April 8, 1970

Lybrand, Ross Bros. & Montgomery

Notes to Consolidated Financial Statements

A — Basis of Presentation

The consolidated financial statements of Zayre Corp. and All Subsidiaries include the financial statements of all the Company's subsidiaries, all wholly owned. However, the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries excludes the assets and liabilities of the leasing subsidiaries, which are presented in note J.

B — Long-Term Debt

At January 31, 1970, long-term debt, exclusive of current instalments, consisted of the following:

General corporate notes:	
Promissory notes, interest at 5.8% to ¼% over prime, maturing April 5, 1971 to January 31, 1984	$10,917,492
5½% subordinated notes maturing January 15, 1972 to January 15, 1979	1,700,000
	12,617,492
Equipment promissory notes, interest principally at ¼% above prime, maturing March 1, 1971 to November 1, 1975	27,024,892
Real estate mortgages, interest at 5½% to 7¾%, maturing September 30, 1971 to January 1, 2001	25,505,316
5¾% convertible subordinated debentures, maturing December 15, 1979 to December 15, 1994	20,000,000
	$85,147,700

The 5½% subordinated notes are subordinated to the other general corporate notes. The 5¾% convertible subordinated debentures are subordinated to all general corporate notes and are convertible into common stock at $40.00 per share, for which the Company has reserved 500,000 shares of its common stock. Under provisions of the agreements governing long-term debt, $16,000,000 of retained earnings was available for dividends at January 31, 1970. While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt.

C — Federal Income Taxes

Deferred federal income taxes arise from income tax and financial reporting differences principally with respect to depreciation expense, pre-opening costs, certain accrued expenses, and customer instalment receivables. Investment credit used to reduce the provisions for federal income taxes amounted to $506,000 in fiscal 1970 and $402,000 in fiscal 1969.

D — Commitments

The companies are committed to pay minimum annual rentals under long-term net leases expiring: between fiscal 1974 and 1981 — $1,700,000; between fiscal 1982 and 1988 — $6,900,000; and between fiscal 1989 and 1998 — $6,900,000. Additional minimum annual rentals of approximately $2,400,000 will be payable under long-term leases for fifteen stores to be opened during fiscal 1971 or later.

In February, 1970, the company purchased two presently occupied store sites for $2,600,000 for which financing commitments have been arranged. Purchase commitments of approximately $4,400,000 are outstanding for real estate and leasehold improvements, and approximately $2,800,000 are outstanding for furniture, fixtures and equipment for new stores, distribution centers and other facilities.

E — Retirement Plan

The actuarially determined cost of the Company's noncontributory, funded employee Retirement Plan, amounting to $442,000 in fiscal 1970 and $640,000 in fiscal 1969 (including amortization of prior service costs over thirty years), has been charged to income.

F — Preferred Stock

The Company's Series B cumulative convertible preferred stock is entitled to a liquidation preference of $65 per share, or $3,747,835 in the aggregate for the 57,659 shares issued and outstanding, and is redeemable, subsequent to January 30, 1974, at the option of the Company at the same price. Dividend payments at an annual rate of $2.60 per share will begin to accrue as to 46,866 shares on January 31, 1970 and as to 10,793 shares on January 31, 1971. Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

G — Stock Options, Stock Purchase Warrants and Stock Purchase Plan

Under its Stock Option Plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date. Generally, all options are exercisable in four equal cumulative annual instalments commencing one year after the grant date. Unissued common stock reserved for options aggregated 231,272 shares at January 31, 1970 and 208,965 shares at January 25, 1969. Information concerning activity during fiscal 1970 follows:

	Option Prices	Number of Common Shares: Issuable Under Options Granted	Number of Common Shares: Available for Future Options
Outstanding at 1/25/69	\$ 4.70 to \$25.75	122,265	86,700
Additional authorization under 1967 Plan			50,000
Options granted	\$37.75 to \$38.67	67,910	(67,910)
Options exercised	\$ 4.70 to \$23.42	(24,989)	
Cancellations		(8,524)	5,820
Outstanding at 1/31/70	\$13.94 to \$38.67	156,662	74,610

Class A and Class B warrants for the purchase of 78,780 and 47,265 shares, respectively, of the Company's common stock were outstanding at January 31, 1970, and the Company has reserved 126,045 shares of its common stock therefor. The price at which they are exercisable through July 15, 1971 is \$4.76 for Class A warrants and \$5.95 for Class B warrants; thereafter both classes are exercisable at \$7.14 per share until they expire on January 15, 1979.

Under its Executive Incentive Stock Purchase Plan, adopted in June 1969, 53,250 shares of common stock were reserved at January 31, 1970 for sale at a price (not less than par value) determined by the Company, subject to repurchase options and restrictions on sales which lapse equally over five or ten years. In fiscal 1970, 21,750 shares were sold for \$1.00 per share under the Plan.

H — Depreciation and Amortization

For financial reporting purposes, the Company provides for depreciation and amortization by the use of the straight line method as follows: buildings — 33 years; leasehold costs and improvements — shorter of the lease term or estimated useful life; furniture, fixtures and equipment — 5 to 10 years; and pre-opening costs — 12 months.

I — Net Income per Common Share

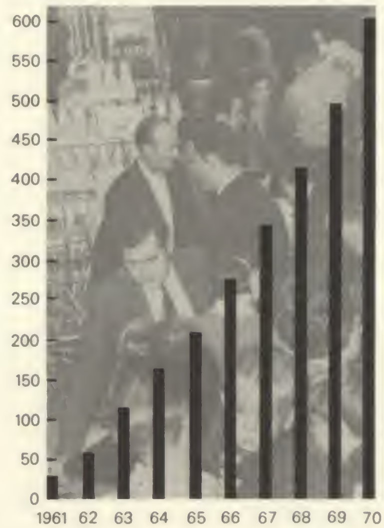
Primary net income per common share is based upon the average number of shares outstanding in each year, after provision for the full annual dividend requirements on the preferred stock deemed to be outstanding during each period. Fully diluted net income per common share assumes full conversion of all convertible securities and the exercise of all stock options and warrants during the periods in which they were outstanding.

J — Combined Balance Sheets of the Leasing Subsidiaries

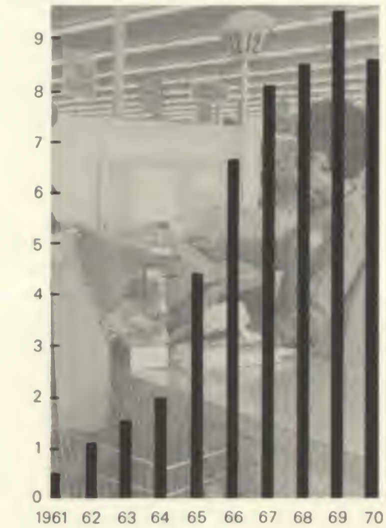
	January 31, 1970	January 25, 1969
ASSETS		
Property, at cost:		
Land and buildings	\$30,851,928	\$22,577,128
Furniture, fixtures, and leasehold improvements	50,351,787	40,177,501
	81,203,715	62,754,629
Less accumulated depreciation and amortization	18,986,011	14,892,195
	62,217,704	47,862,434
Cash and marketable securities	3,781,090	3,074,612
Accounts receivable	66,621	34,556
Other assets	308,999	197,003
	\$66,374,414	\$51,168,605
LIABILITIES		
Long-term debt, including current instalments of \$4,436,477 in 1970 and \$3,879,154 in 1969 (note B)	\$56,966,685	\$44,189,297
Accounts payable and accrued expenses	2,034,097	1,014,578
Federal income taxes	121,710	142,508
Due to parent and operating subsidiaries	2,575,906	1,320,732
Deferred federal income taxes	1,268,000	1,368,000
	62,966,398	48,035,115
EQUITY	3,408,016	3,133,490
	\$66,374,414	\$51,168,605

Fixed annual rentals are receivable, under long-term leases, from the parent company and its operating subsidiaries for the use of real estate, furniture, fixtures and leasehold improvements owned by the leasing subsidiaries.

SALES



PROFIT



Zayre Corp. and All Subsidiaries

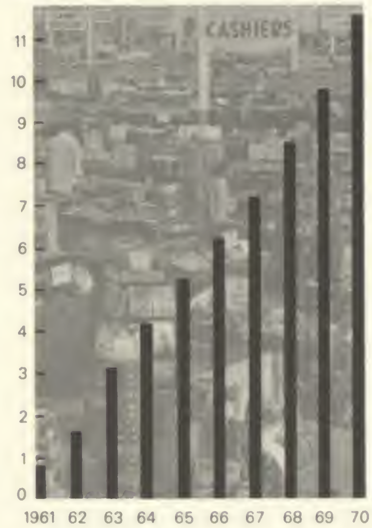
Ten-Year Summary of Progress

Fiscal Year Ended Last Saturday in January	1970	1969	1968	1967
OPERATING DATA:				
Net sales, excluding sales of leased departments	$599,868,532	$490,690,810	$415,434,683	$345,702,887
Income before federal income taxes	$ 16,452,167	$ 18,338,471	$ 14,974,033	$ 14,409,612
Net income	$ 8,652,167	$ 9,538,471	$ 8,474,033	$ 8,109,612
Average number of common shares outstanding	4,595,813	4,319,079	4,235,577	4,147,026
Net income per common share:				
Primary (1)	$1.85	$2.10	$1.88	$1.87
Fully diluted (2)	$1.78	$1.99	$1.78	$1.75
STORES IN OPERATION:				
Self-service department stores	153	131	115	96
Apparel specialty shops	48	46	45	40
Fabric shops	7	6	5	—
Gasoline Stations	37	32	21	13
Discount Food Supermarkets	8	5	4	—
FINANCIAL POSITION:				
Current assets	$140,998,856	$103,844,019	$ 83,368,194	$ 69,970,686
Current liabilities	$ 60,649,133	$ 51,384,968	$ 40,705,403	$ 35,960,526
Working capital	$ 80,349,723	$ 52,459,051	$ 42,662,791	$ 34,010,160
Shareholders' equity	$ 65,516,218	$ 56,328,109	$ 46,739,148	$ 36,790,164
Number of common shares outstanding at year end	4,615,854	4,569,616	4,283,449	4,169,322
Equity per common share (3)	$13.93	$12.10	$10.09	$8.31

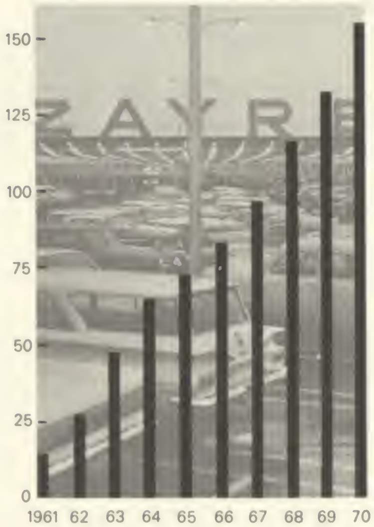
(1) Primary net income per common share is based on the average number of shares outstanding in each year, after provision for the full annual dividend requirements on the preferred stock deemed to be outstanding during each period.

(2) Fully diluted net income per common share assumes

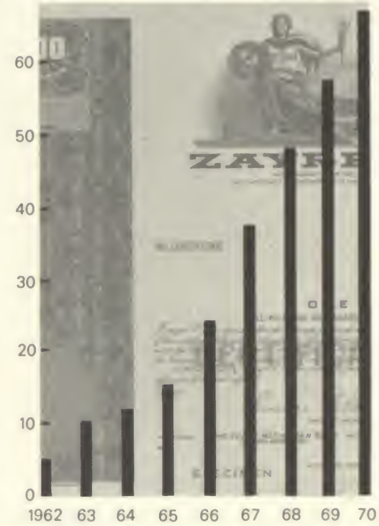
ZAYRE STORE SPACE
Square Feet In Millions



NO. OF DEPARTMENT STORES



SHAREHOLDERS' EQUITY
In Millions



1966	1965	1964	1963	1962	1961
$278,558,325	$211,984,918	$167,846,772	$115,850,773	$59,165,743	$41,942,064
$ 11,656,325	$ 7,482,061	$ 3,252,011	$ 2,622,428	$ 2,003,736	$ 1,062,697
$ 6,656,325	$ 4,369,611	$ 1,993,277	$ 1,561,428	$ 1,126,736	$ 541,697
3,754,230	3,725,803	3,725,175	3,286,149	3,163,650	3,163,650
$1.69	$1.09	$.45	$.37	$.35	$.17
$1.49	$1.04	$.45	$.37	$.35	$.17
83	72	64	47	27	14
41	43	46	48	52	59
—	—	—	—	—	—
4	2	—	—	—	—
—	—	—	—	—	—
$ 55,771,000	$ 36,235,800	$ 33,110,766	$ 21,891,016	$11,467,893	
$ 26,742,975	$ 19,805,734	$ 18,996,036	$ 12,364,312	$ 7,347,858	
$ 29,028,025	$ 16,430,066	$ 14,114,730	$ 9,526,704	$ 4,120,035	
$ 23,746,510	$ 14,907,961	$ 11,694,875	$ 10,023,589	$ 4,957,270	
3,795,205	3,730,110	3,725,175	3,531,150	3,163,650	
$5.85	$3.78	$2.92	$2.62	$1.57	

full conversion of all outstanding convertible securities and the exercise of all stock options and warrants during the periods in which they were outstanding.

(3) Information assumes conversion of outstanding preferred stock.

OFFICERS

MAX FELDBERG
Chairman

STANLEY H. FELDBERG
President

SUMNER L. FELDBERG
Executive Vice President

ROBERT FEINBERG
Vice President, Merchandising

ANNA GOLDSTEIN LEVITMAN
Vice President, Merchandising

LEO MICHELSON
Vice President, Merchandising

GEORGE MOVER
Vice President, Regional Manager

THEODORE SCHOENFELD
Vice President, Merchandising

ARNOLD SUVAL
Vice President, Merchandising

NEWTON A. LANE
Secretary

O. C. ADAMS
Assistant Vice President, Regional Manager

ROBERT ALGER
Assistant Vice President, Regional Manager

DAVID BANKER
Assistant Vice President, Merchandising

ROBERT BOZEMAN
Assistant Vice President, Management Information Systems

GERALD DAVIS
Assistant Vice President, Merchandising

FRED FIELD
Assistant Vice President, Merchandising

DIRECTORS

MAX FELDBERG
Chairman,

ABRAM BERKOWITZ
Partner, Ropes & Gray

STANLEY H. FELDBERG
President

SUMNER L. FELDBERG
Executive Vice President

NEWTON A. LANE
Partner, Nathanson & Rudofsky

MILTON L. LEVY
Senior Vice President

MORRIS NATELSON
Partner, Lehman Brothers

WALTER J. SALMON
Professor of Marketing
Harvard Graduate School of Business Administration

BURTON S. STERN
Senior Vice President

MILTON L. LEVY
Senior Vice President, Real Estate

BURTON S. STERN
Senior Vice President, General Merchandise Manager

JOEL JACOBSON
Vice President, Sales/Operations

PAUL KWASNICK
Vice President, Finance/Distribution and Treasurer

GEORGE FREEMAN
Assistant Vice President, Staff Finance

JOSEPH HEFFERNAN
Assistant Vice President, Store Operations

IRVING LIEF
Assistant Vice President, Merchandising

ROBERT SHEDD
Assistant Vice President, Finance

DAVID GOLDMAN
Assistant Vice President, Regional Manager

RANDOLPH L. KRUGER
Assistant Vice President, Administrative Services

JOHN F. McGOWAN
Assistant Vice President, Regional Manager

MALCOLM L. SHERMAN
Assistant Vice President, Merchandising

SAMUEL J. GREENBERG
Assistant Vice President, Merchandising

NORMAN LENOX
Assistant Vice President, Disbursements

ARTHUR J. OBER, JR.
Assistant Vice President, Store Planning and Construction

KAREM SKAFF
Assistant Vice President, Merchandising

Annual Meeting

The 1970 annual meeting will be held at 11:00 A.M. on Tuesday, June 2, 1970, in the Forum Room, State Street Bank and Trust Company, 225 Franklin Street, Boston, Mass.

Transfer Agents

State Street Bank and Trust Company
Boston, Massachusetts

Irving Trust Company
New York, New York

Registrars

The First National Bank of Boston
Boston, Massachusetts

The Chase Manhattan Bank
New York, New York

Listing

New York Stock Exchange

General Counsel

Nathanson & Rudofsky

Special Counsel

Ropes & Gray

Auditors

Lybrand, Ross Bros. & Montgomery

Touche, Ross, Bailey & Smart

Executive Offices

Framingham, Massachusetts

ZAYRE CORP. FRAMINGHAM, MASSACHUSETTS 01701

PRINTED IN U.S.A.